



Testimony  
Before the Committee on the Budget,  
U.S. Senate

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For Release on Delivery  
Expected at 10:30 a.m. ET  
Wednesday, April 6, 2016

# FISCAL YEAR 2015 U.S. GOVERNMENT FINANCIAL STATEMENTS

## Need to Address the Government's Remaining Financial Management Challenges and Long- Term Fiscal Path

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# GAO Highlights

Highlights of [GAO-16-541T](#), a testimony before the Committee on the Budget, U.S. Senate

## Why GAO Did This Study

Congress and the President need reliable, useful, and timely financial and performance information to make difficult budget choices and deal with the nation's long-term fiscal challenges. To determine if this need is met, among other things GAO annually audits the governmentwide financial statements contained in the *Financial Report*.

Taken together, the *Financial Report* and the *Budget of the United States Government (Budget)* are complementary documents that provide a comprehensive perspective on the government's financial position and condition. The *Budget* accounts for government receipts, or cash received by the government, and spending (outlays), or payments made by the government to the public. The *Financial Report* includes the governmentwide financial statements, presenting the government's revenues and costs, assets and liabilities, and sustainability reporting, and discusses other important financial information.

This testimony discusses the federal government's remaining financial management challenges and long-term fiscal path, specifically in the context of GAO's report on the fiscal year 2015 governmentwide financial statements.

## What GAO Recommends

Over the years, GAO has made numerous recommendations directed at improving federal financial management. The federal government has generally taken or plans to take actions to address GAO's recommendations.

View [GAO-16-541T](#). For more information, contact Robert F. Dacey, [daceyr@gao.gov](mailto:daceyr@gao.gov) or J. Lawrence Malenich, [malenichj@gao.gov](mailto:malenichj@gao.gov) or (202) 512-3406; and J. Christopher Mihm, [mihmj@gao.gov](mailto:mihmj@gao.gov) or (202) 512-6806.

April 6, 2016

## FISCAL YEAR 2015 U.S. GOVERNMENT FINANCIAL STATEMENTS:

### Need to Address the Government's Remaining Financial Management Challenges and Long-Term Fiscal Path

## What GAO Found

The *Financial Report of the U.S. Government (Financial Report)* provides important information to the Congress, federal agencies, and the public, including the government's financial condition and the reliability of data used to help support budget and financial decisions. While significant progress has been made in improving federal financial management over the past 20 years, material weaknesses in internal control over financial reporting and other limitations continued to prevent GAO from expressing an opinion on the government's accrual-based financial statements. Three major impediments are: (1) serious financial management problems at DOD, which represented 30 percent and 15 percent of the government's reported total assets and net costs, respectively; (2) the government's inability to adequately account for and reconcile a significant amount of intragovernmental activity and balances between federal entities, which resulted in hundreds of billions of dollars in differences; and (3) the government's ineffective process for preparing the U.S. government's consolidated financial statements (governmentwide financial statements).

Unless these weaknesses are adequately addressed, they will, among other things, continue to (1) hamper the government's ability to reliably report a significant portion of its assets, liabilities, costs, and other related information; and (2) hinder the government from having reliable financial information to operate in an efficient and effective manner. Efforts are under way to resolve these issues, but strong and sustained commitment by DOD and other federal entities, as well as continued leadership by Treasury and OMB, are needed.

The *Financial Report* also helps to convey the long-term fiscal position of the federal government. However, significant uncertainties, primarily related to the achievement of projected reductions in Medicare cost growth, and a material weakness in internal control over financial reporting prevented GAO from expressing an opinion on the sustainability financial statements, including the new Statement of Long-Term Fiscal Projections. The sustainability financial statements are critical to understanding the government's financial condition and sustainability of current fiscal policies. Although the timing and size of the increase in debt as a share of gross domestic product varies depending on the assumptions used, both the long-term fiscal projections included in the governmentwide financial statements and GAO's own recent long-term fiscal simulations show that absent policy changes, the federal government continues to face an unsustainable long-term fiscal path.

Other challenges that need urgent attention are highlighted in the *Financial Report*, including (1) the significant and pervasive government-wide issue of improper payments, which totaled over \$1 trillion since fiscal year 2003, and (2) reducing the annual net tax gap, last estimated by IRS to be \$385 billion.

Finally, GAO has identified ways that Congress could consider for better linking decisions about the debt limit with decisions about spending and revenue at the time those decisions are made. These potential approaches would both achieve this link and minimize disruptions to the market.

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Chairman Enzi, Ranking Member Sanders, and Members of the Committee:

I appreciate the opportunity to be here today to discuss the need to address the federal government's remaining financial management challenges and long-term fiscal path. My statement is framed in the context of our report on the U.S. government's fiscal year 2015 consolidated financial statements (governmentwide financial statements), which is included in the *Financial Report of the United States Government (Financial Report)*.

In passing a series of financial management reform legislation in the 1990s, Congress sought to address the historical lack of reliable, useful, and timely information to assure financial accountability for the federal government. Such legislation included the Chief Financial Officers (CFO) Act of 1990, as expanded by the Government Management Reform Act of 1994 (GMRA), which requires the inspectors general of the 24 CFO Act agencies to be responsible for annual audits of agency-wide financial statements prepared by these entities, beginning with fiscal year 1996.<sup>1</sup> GMRA also requires the preparation of annual financial statements covering the executive branch of the government, beginning with financial statements prepared for fiscal year 1997.<sup>2</sup> Treasury and OMB have elected to include certain financial information on the legislative and judicial branches in the governmentwide financial statements as well. GAO is responsible for the audit of the governmentwide financial statements.<sup>3</sup> Further, with the enactment of the Accountability of Tax Dollars Act of 2002 (ATDA), most executive branch entities must now annually prepare financial statements and have them audited.<sup>4</sup>

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<sup>1</sup>31 U.S.C. § 3521(e). GMRA authorized the Office of Management and Budget to designate agency components that also would receive financial statement audits. See 31 U.S.C. § 3515(c).

<sup>2</sup>31 U.S.C. § 331(e)(1). GMRA requires the Secretary of the Treasury, working in coordination with the Director of OMB, to annually submit to the President and Congress audited financial statements covering the executive branch.

<sup>3</sup>GMRA, Pub. L. No. 103-356, § 405(c), 108 Stat. 3410, 3416-17 (Oct. 13, 1994), *codified at* 31 U.S.C. § 331(e)(2).

<sup>4</sup>ATDA, Pub. L. No. 107-289, 116 Stat. 2049 (Nov. 7, 2002), *codified at* 31 U.S.C. § 3515.

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During fiscal year 2015, the federal government's reported unified budget deficit decreased by about \$45 billion to approximately \$439 billion. However, the federal government continues to face an unsustainable long-term fiscal path. To operate as effectively and efficiently as possible and to make difficult decisions to address the federal government's fiscal challenges, Congress, the administration, and federal managers must have ready access to reliable, useful, and timely financial and performance information—both for individual federal entities and for the federal government as a whole. Reliable financial information would also be helpful as you face the difficult budget choices needed to deal with our long-term fiscal outlook. Also, without reliable, useful, and timely financial information, the government cannot adequately ensure accountability over spending and its assets, accurately measure and control costs, manage for results, or make timely and fully informed decisions about allocating limited resources.

Taken together, the *Financial Report* and the *Budget of the United States Government (Budget)* are complementary documents that provide a comprehensive perspective on the federal government's financial position and condition. The *Budget* is the government's primary financial planning and control tool. It also accounts for past government receipts and spending. The *Budget* focuses on receipts, or cash received by the federal government, and outlays, or payments made by the federal government to the public.

The *Financial Report* includes the governmentwide financial statements, consisting of the accrual-based financial statements,<sup>5</sup> the sustainability financial statements,<sup>6</sup> the related notes to these financial statements, as well as other important financial information. The accrual-based financial

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<sup>5</sup>The accrual-based financial statements as of and for the fiscal years ended September 30, 2015, and 2014, consist of the (1) Statements of Net Cost, (2) Statements of Operations and Changes in Net Position, (3) Reconciliations of Net Operating Cost and Unified Budget Deficit, (4) Statements of Changes in Cash Balance from Unified Budget and Other Activities, and (5) Balance Sheets, including the related notes to these financial statements. Most revenues are recorded on a modified cash basis.

<sup>6</sup>The sustainability financial statements comprise the Statement of Long-Term Fiscal Projections, covering all federal government programs, and the Statement of Social Insurance and the Statement of Changes in Social Insurance Amounts, covering social insurance programs (Social Security, Medicare, Railroad Retirement, and Black Lung programs). The sustainability financial statements do not interrelate with the accrual-based financial statements.

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statements present historical information on what the federal government owns (assets) and owes (liabilities) at the end of the year, what came in (revenues—amounts earned, but not necessarily collected) and what went out (net costs—amounts incurred, but not necessarily paid) during the year, and how accrual-based net operating costs of the federal government reconcile to the budget deficit and changes in its cash balances during the year.

The sustainability financial statements are designed to illustrate the relationship between projected receipts and expenditures if current policy is continued over a 75-year time horizon. For this purpose, the projections assume that scheduled social insurance benefit payments would continue after related trust funds are projected to be exhausted, contrary to current law, and that debt could continue to rise indefinitely without severe economic consequences. The sustainability financial statements are intended to help readers understand current policy and the importance and magnitude of policy reforms necessary to make it sustainable.<sup>7</sup>

The objectives of financial reporting are designed to enhance the financial information reported by the federal government to (1) demonstrate the federal government's accountability and provide useful information to internal and external users of federal financial reports, and (2) help internal users of financial information improve the government's management.

Overall, significant progress has been made in improving federal financial management since the enactment of key federal financial management reforms in the 1990s; however, our report on the governmentwide financial statements underscores that much work remains to improve federal financial management, and these improvements are urgently needed. Congressional oversight is critical to ensuring continued progress. The annual audits of the agency and governmentwide financial statements are an independent assessment of the reliability of the information contained in such financial statements and are a key element

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<sup>7</sup>By accounting convention, the Statement of Social Insurance does not include projected general revenues that, under current law, would be used to finance the remainder of the expenditures in excess of revenues for Medicare Parts B and D reported in the Statement of Social Insurance. The Statement of Long-Term Fiscal Projections includes all revenues (including general revenues) of the federal government.

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in providing accountability over the federal government's finances and assets.

Our testimony today discusses the following major issues that are highlighted in the *Financial Report*.

- the overall results of our recent audit of the fiscal year 2015 governmentwide financial statements;
- accrual costs incurred by the federal government and certain financial risks that could affect the federal government's financial condition in the future;
- challenges posed by the federal government's long-term fiscal outlook; and
- improving the link between policy decisions that create debt and the authority to borrow (the debt limit) at the time those decisions are made.

In February, we reported on the results of our audit of the fiscal year 2015 governmentwide financial statements.<sup>8</sup> Both the financial statements and our related audit report are included in the 2015 Financial Report.<sup>9</sup> We performed sufficient audit work to provide our reports on the financial statements; internal control over financial reporting; and compliance with laws, regulations, contracts, and grant agreements. We conducted our audit in accordance with U.S. generally accepted government auditing standards. Our audit report would not be possible without the commitment and professionalism of inspectors general throughout the federal government who are responsible for annually auditing the financial statements of individual federal entities.

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<sup>8</sup>[GAO-16-357R](#).

<sup>9</sup>The 2015 *Financial Report*, which is an enclosure to [GAO-16-357R](#), is available through the Department of the Treasury at [https://www.fiscal.treasury.gov/fsreports/rpt/finrep/fr/fr\\_index.htm](https://www.fiscal.treasury.gov/fsreports/rpt/finrep/fr/fr_index.htm). Also, see GAO, *Understanding the Primary Components of the Annual Financial Report of the United States Government*, [GAO-09-946SP](#) (Washington, D.C.: September 2009).

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## Overall Results of Our Audit

I would like to discuss (1) material weaknesses and other limitations that prevented us from providing an opinion on the accrual-based financial statements, (2) efforts to address major impediments to an opinion on the accrual-based financial statements, (3) other material weaknesses that contributed to the government's ineffective internal control over financial reporting, and (4) significant uncertainties and a material weakness that prevented us from providing an opinion on the sustainability financial statements.

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### Material Weaknesses in Internal Control over Financial Reporting and Other Limitations Resulted in a Disclaimer of Opinion on the Accrual-Based Financial Statements

The federal government was unable to demonstrate the reliability of significant portions of its accrual-based financial statements as of and for the fiscal years ended September 30, 2015, and 2014, principally resulting from limitations related to certain material weaknesses in internal control over financial reporting<sup>10</sup> and other limitations affecting the reliability of these financial statements. For example, about 34 percent of the federal government's reported total assets as of September 30, 2015, and approximately 19 percent of the federal government's reported net cost for fiscal year 2015, relate to three CFO Act agencies—the Department of Defense (DOD), the Department of Housing and Urban Development, and the U.S. Department of Agriculture—that received disclaimers of opinion on their fiscal year 2015 financial statements. As a result, we were prevented from providing an opinion on the accrual-based financial statements.

The federal government did not maintain adequate systems or have sufficient appropriate evidence to support certain material information reported in its accrual-based financial statements. The underlying material weaknesses in internal control, which have existed for years, contributed to our disclaimer of opinion on the accrual-based financial statements as of and for the fiscal years ended September 30, 2015, and

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<sup>10</sup>A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

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2014.<sup>11</sup> Specifically, these weaknesses concerned the federal government's inability to

- satisfactorily determine that property, plant, and equipment and inventories and related property, primarily held by DOD, were properly reported in the accrual-based financial statements;
- reasonably estimate or adequately support amounts reported for certain liabilities, such as environmental and disposal liabilities, or determine whether commitments and contingencies were complete and properly reported;
- support significant portions of the reported total net cost of operations, most notably related to DOD, and adequately reconcile disbursement activity at certain federal entities;
- adequately account for and reconcile intragovernmental activity and balances between federal entities;
- reasonably assure that the governmentwide financial statements are (1) consistent with the underlying audited entities' financial statements, (2) properly balanced, and (3) in accordance with U.S. generally accepted accounting principles (U.S. GAAP); and
- reasonably assure that the information in the (1) Reconciliations of Net Operating Cost and Unified Budget Deficit and (2) Statements of Changes in Cash Balance from Unified Budget and Other Activities is complete and consistent with the underlying information in the audited entities' financial statements and other financial data.

These material weaknesses continued to (1) hamper the federal government's ability to reliably report a significant portion of its assets, liabilities, costs, and other related information; (2) affect the federal government's ability to reliably measure the full cost as well as the financial and nonfinancial performance of certain programs and activities; (3) impair the federal government's ability to adequately safeguard significant assets and properly record various transactions; and (4) hinder

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<sup>11</sup>A detailed description of the material weaknesses that contributed to our disclaimer of opinion, including the primary effects of these material weaknesses on the accrual-based financial statements and on the management of federal government operations, can be found on pp. 257 through 262 of the *2015 Financial Report*.

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the federal government from having reliable financial information to operate in an efficient and effective manner.

It is important to note, however, that since the enactment of key federal financial management reforms in the 1990s, significant progress has been made in improving federal financial management activities and practices. For fiscal year 2015, almost all of the 24 CFO Act agencies received unmodified (“clean”) audit opinions on their respective entities’ financial statements, up from 6 CFO Act agencies for fiscal year 1996.<sup>12</sup> In addition, accounting and financial reporting standards have continued to evolve to provide greater transparency and accountability over the federal government’s operations, financial condition, and fiscal outlook. Further, the preparation and audit of individual federal entities’ financial statements have identified numerous deficiencies, leading to corrective actions to strengthen federal entities’ internal controls, processes, and systems. However, many of the CFO Act agencies continue to struggle with financial management systems that do not meet the needs of management for reliable, useful, and timely financial information.

The Federal Financial Management Improvement Act of 1996 (FFMIA) was designed to lead to system improvements that would result in CFO Act agency managers routinely having access to reliable, useful, and timely financial-related information with which to measure performance and increase accountability throughout the year.<sup>13</sup> FFMIA requires auditors, as part of the 24 CFO Act agencies’ financial statement audits, to report whether those agencies’ financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the federal government’s *U.S. Standard General Ledger* at the transaction level.

For fiscal year 2015, auditors at 12 of the 24 CFO Act agencies reported that the agencies’ financial management systems did not substantially comply with one or more of the three FFMIA requirements. Long-standing

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<sup>12</sup>See app. I for the fiscal year 2015 audit results for the 24 CFO Act agencies.

<sup>13</sup>FFMIA, which is reprinted in 31 U.S.C. § 3512 note, defines “financial management systems” to include the financial systems and the financial portions of mixed systems necessary to support financial management, including automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions.

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financial management systems weaknesses at several large CFO Act agencies, along with the size and complexity of the federal government, continue to present a formidable management challenge in providing accountability to the nation's taxpayers and have contributed significantly to certain of the material weaknesses and other limitations discussed in our audit report. Therefore, it is important for the individual federal entities to remain committed to maintaining the progress that has been achieved in obtaining positive audit results and to build upon that progress to make needed improvements in federal financial management systems.

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## Efforts to Address Impediments to an Opinion on the Accrual-Based Financial Statements

Three major impediments continued to prevent us from rendering an opinion on the government's accrual-based financial statements: (1) serious financial management problems at DOD that have prevented its financial statements from being auditable, (2) the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal entities, and (3) the federal government's ineffective process for preparing the governmentwide financial statements.

## Improving Financial Management at DOD

Having sound financial management practices and reliable, useful, and timely financial information is important to ensure accountability over DOD's extensive resources to efficiently and economically manage the department's assets, budgets, mission, and operations. Accomplishing this goal is a significant challenge given the worldwide scope of DOD's mission and operations; the diversity, size, and culture of the organization; and its reported trillions of dollars of assets and liabilities and its hundreds of billions of dollars in annual appropriations. Given the federal government's continuing fiscal challenges, reliable, useful, and timely financial and performance information is important to help federal managers ensure fiscal responsibility and demonstrate accountability. This is particularly true for DOD, the federal government's largest department—which represented about 30 percent of the federal government's reported total assets as of September 30, 2015, and approximately 15 percent of the federal government's reported net cost for fiscal year 2015.

DOD continues to work toward the long-term goal of improving financial management and auditability of its department-wide financial statements. The National Defense Authorization Act (NDAA) for Fiscal Year 2010

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requires that DOD's Financial Improvement and Audit Readiness (FIAR) Plan<sup>14</sup> set as its goal that the department's financial statements be validated as ready for audit by September 30, 2017.<sup>15</sup>

DOD's current FIAR strategy and methodology focus on two priorities—budgetary information and asset accountability—with an overall goal of preparing auditable department-wide financial statements by September 30, 2017. Based on difficulties encountered in preparing for an audit of the Statement of Budgetary Resources (SBR), DOD made a significant change to its FIAR Guidance that limited the scope of the first-year SBR audits for all DOD components.<sup>16</sup> As outlined in the November 2014 FIAR Plan Status Report and the November 2013 revised FIAR Guidance, the scope of initial SBR audits beginning in fiscal year 2015 was to focus on current-year budget activity, to be reported on a Schedule of Budgetary Activity (SBA).<sup>17</sup> This was intended to be an interim step toward achieving

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<sup>14</sup>DOD's FIAR Plan is a strategic plan and management tool for guiding, monitoring, and reporting on the department's ongoing financial management improvement efforts and for communicating the department's approach to addressing its financial management weaknesses and achieving financial statement audit readiness. The FIAR Plan was last updated in November 2015.

<sup>15</sup>Section 1003 of the National Defense Authorization Act for Fiscal Year 2010, Pub. L. No. 111-84, 123 Stat. 2190, 2439-41 (Oct. 28, 2009), made the development and maintenance of the FIAR Plan a statutory requirement. Under the act, the FIAR Plan must describe specific actions to be taken and the costs associated with ensuring that DOD's financial statements are validated as ready for audit by September 30, 2017. In addition, section 1005 of the National Defense Authorization Act for Fiscal Year 2013, Pub. L. No. 112-239, 126 Stat. 1632, 1904-05 (Jan. 2, 2013), enacted a requirement for DOD's FIAR Plan to describe specific actions to be taken and the costs associated with ensuring that one of DOD's financial statements, the Statement of Budgetary Resources, would be validated as ready for audit by September 30, 2014, but DOD has acknowledged that it did not meet this target date. More recently, the National Defense Authorization Act for Fiscal Year 2014 also mandated an audit of DOD's fiscal year 2018 financial statements, and that those results be submitted to Congress by March 31, 2019. Pub. L. No. 113-66, div. A. § 1003, 127 Stat. 672, 842 (Dec. 26, 2013) (*reprinted in* 10 U.S.C. § 2222 note).

<sup>16</sup>The FIAR Guidance was first issued by the DOD Comptroller in May 2010 and provides a standardized methodology for DOD components to follow for achieving financial management improvements and auditability. The DOD Comptroller periodically updates this guidance, most recently in April 2015.

<sup>17</sup>Unlike the SBR, which reflects multiple-year budget activity, the SBA reflects the balances and associated activity related only to funding from fiscal year 2015 forward. As a result, the SBAs will exclude unobligated and unexpended amounts carried over from funding prior to fiscal year 2015, as well as information on the status and use of such funding (e.g., obligations incurred and outlays) in fiscal year 2015 and thereafter.

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the audit of multiple-year budgetary activity required for an audit of the SBR. In making this strategic change, DOD officials concluded—based on the difficulties encountered in obtaining documentation for prior year transactions on the U.S. Marine Corps SBR audit—that the most effective path to an audit of the SBR would be to start with reporting and auditing only current-year activity for fiscal year 2015 appropriations and expanding subsequent audits to include current-year appropriations and prior appropriations going back to fiscal year 2015.

Consequently, certain DOD components—including the Army, Navy, and Air Force—underwent their first SBA audits for fiscal year 2015. Independent public accountants (IPA) issued disclaimers of opinion on the Army's, Navy's, and Air Force's fiscal year 2015 SBAs,<sup>18</sup> and identified material weaknesses in internal control at all three military departments. Army, Navy, and Air Force management have generally concurred with the findings in the respective IPA reports and stated that they will develop and execute corrective actions to address the IPAs' recommendations. In its November 2015 FIAR Plan Status Report, DOD reported that the Army, Navy, and Air Force will again undergo SBA audits for fiscal year 2016.

To meet its goal of having its department-wide financial statements audit ready by September 30, 2017,<sup>19</sup> DOD developed seven critical path milestones and dates by which those milestones have to be completed. For example, DOD has identified reconciling Fund Balance with Treasury<sup>20</sup> and valuation of assets (e.g., general property, plant, and equipment and inventory and related property) as critical to its efforts to

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<sup>18</sup>The Air Force's IPA issued its opinion on November 20, 2015, the Army's IPA issued its opinion on January 15, 2016, and the Navy's IPA issued its opinion on February 29, 2016.

<sup>19</sup>Per the FIAR plan, "audit ready" means the department has strengthened internal controls and improved financial practices, processes, and systems so there is reasonable confidence that the information can undergo an audit by an independent auditor. To undergo an audit does not necessarily mean that the department is representing that it will receive an unmodified opinion on the information being audited, but rather that there is a reasonable basis for an independent auditor to audit the information.

<sup>20</sup>In the federal government, an agency's Fund Balance with Treasury accounts are similar in concept to corporate bank accounts. The difference is that instead of a cash balance, Fund Balance with Treasury represents unexpended spending authority in appropriation accounts. Similar to bank accounts, the funds in DOD's appropriation accounts must be reduced or increased as the department spends money or receives collections that it is authorized to retain for its own use.

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become audit ready. The critical path milestones are considered priorities that DOD components still need to address. In addition, the department is still developing the details of its strategy for how to consolidate individual component financial statements into department-wide financial statements, which among other things, will need to address the elimination of intragovernmental transactions.

The effects of DOD's financial management problems extend beyond financial reporting. Long-standing control deficiencies adversely affect the economy, efficiency, and effectiveness of its operations. For example, as we have previously reported, DOD's financial management problems have contributed to (1) inconsistent and sometimes unreliable reports to Congress on estimated weapon system operating and support costs, limiting the visibility needed for effective oversight of the weapon system programs,<sup>21</sup> and (2) continuing reports of Antideficiency Act<sup>22</sup> violations—36 such violations reported from fiscal year 2011 through fiscal year 2015, totaling over \$1 billion—which emphasize DOD's inability to ensure that obligations and expenditures are properly recorded and do not exceed statutory levels of control.<sup>23</sup> Further, DOD faces challenges in its efforts to provide reasonable assurance of accountability for its property, plant, and equipment—knowing what it has, where it is located, what condition it is in, and what it cost.

With improvements to its financial management processes, DOD would be better able to provide its management and Congress with reliable, useful, and timely information on the results of its business operations. Effectively implementing needed improvements, however, continues to be a difficult task. While DOD has made efforts to improve its financial management, we have reported over the past few years significant internal control, financial management, and systems deficiencies, including the following:

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<sup>21</sup>GAO, *Defense Logistics: Improvements Needed to Enhance Oversight of Estimated Long-term Costs for Operating and Supporting Major Weapon Systems*, [GAO-12-340](#) (Washington, D.C.: Feb. 2, 2012).

<sup>22</sup>Antideficiency Act, *codified, as amended*, at 31 U.S.C §§ 1341-1342, 1349-1352, 1511-1519.

<sup>23</sup>GAO, *DOD Financial Management: Actions Under Way Need to Be Successfully Completed to Address Long-standing Funds Control Weaknesses*, [GAO-14-94](#) (Washington, D.C.: Apr. 29, 2014).

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- The Air Force and Navy need to establish sufficient controls for their military pay processes.<sup>24</sup>
  - The Defense Finance and Accounting Service did not fully implement the FIAR Guidance in the areas of planning, testing, and corrective actions for processing payments to contractors.<sup>25</sup>
  - Fundamental deficiencies in DOD funds control significantly impair its ability to properly use resources, produce reliable financial reports on the results of operations, and meet its audit readiness goals.<sup>26</sup>
  - The effective implementation of DOD's planned Enterprise Resource Planning (ERP) systems is considered by DOD to be critical to the success of all of its planned long-term financial improvement efforts.<sup>27</sup> However, as we have previously reported, DOD continues to encounter difficulties in implementing its planned ERP systems on schedule and within budget and experiences significant operational problems, such as deficiencies in data accuracy, inability to generate auditable financial reports, and the need for manual work-arounds.<sup>28</sup>

We have made numerous recommendations to DOD to address these financial management issues. We are encouraged by DOD's sustained

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<sup>24</sup>GAO, *DOD Financial Management: Improved Documentation Needed to Support the Air Force's Military Payroll and Meet Audit Readiness Goals*, [GAO-16-68](#) (Washington, D.C.: Dec. 17, 2015), and *DOD Financial Management: Additional Efforts Needed to Improve Audit Readiness of Navy Military Pay and Other Related Activities*, [GAO-15-658](#) (Washington, D.C.: Sept. 15, 2015).

<sup>25</sup>GAO, *DOD Financial Management: The Defense Finance and Accounting Service Needs to Fully Implement Financial Improvements for Contract Pay*, [GAO-14-10](#) (Washington, D.C.: June 23, 2014).

<sup>26</sup>[GAO-14-94](#).

<sup>27</sup>ERP systems are integrated, multifunction systems that perform business-related tasks, such as general ledger accounting and supply chain management. DOD considers their implementation essential to transforming its business operations and achieving its goal of audit readiness by fiscal year 2017.

<sup>28</sup>GAO, *DOD Business Systems Modernization: Additional Enhancements Are Needed for Army Business System Schedule and Cost Estimates to Fully Meet Best Practices*, [GAO-14-470](#) (Washington, D.C.: Sept. 30, 2014); *DOD Business Systems Modernization: Air Force Business System Schedule and Cost Estimates*, [GAO-14-152](#) (Washington, D.C.: Feb. 7, 2014); and *DOD Financial Management: Implementation Weaknesses in Army and Air Force Business Systems Could Jeopardize DOD's Auditability Goals*, [GAO-12-134](#) (Washington, D.C.: Feb. 28, 2012).

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commitment to improving financial management and achieving audit readiness, but several DOD business operations, including financial management, remain on our list of high-risk programs.<sup>29</sup> DOD has financial management improvement efforts under way and is monitoring progress against milestones. However, we have found that DOD and its components have emphasized the assertion of audit readiness by milestone dates over the implementation of effective underlying processes, systems, and controls. While establishing milestones is important for measuring progress, DOD should not lose sight of the ultimate goal—implementing lasting financial management reform to help ensure that it has the systems, processes, and personnel to routinely generate reliable, useful, and timely financial management and other information critical to decision making and effective operations for achieving its missions. Continued congressional oversight of DOD’s financial management improvement efforts will be critical to helping ensure that DOD achieves its financial management improvement and audit readiness goals. To assist Congress in its oversight efforts, we will continue to monitor DOD’s progress and provide feedback on the status of its improvement efforts.

## Reconciling Intragovernmental Activity and Balances

Despite significant progress over the past few years, the federal government continued to be unable to adequately account for and reconcile intragovernmental activity and balances between federal entities, which resulted in hundreds of billions of dollars in differences for fiscal year 2015. When preparing the governmentwide financial statements, intragovernmental activity and balances between federal entities should be in agreement and must be subtracted out, or eliminated, from the financial statements. If the two federal entities engaged in an intragovernmental transaction do not both record the same intragovernmental transaction in the same year and for the same amount, the intragovernmental transactions will not be in agreement, resulting in errors in the governmentwide financial statements. For example, the cost recorded by the federal entity buying a good or service should agree to the revenue recorded by the federal entity trading partner selling the good or service.

The Department of the Treasury (Treasury) has grouped intragovernmental activity and balances into the following five categories.

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<sup>29</sup>GAO, *High-Risk Series: An Update*, [GAO-15-290](#) (Washington, D.C.: Feb. 11, 2015).

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- Fiduciary activities include investments in Treasury securities with the Bureau of the Fiscal Service (Fiscal Service), borrowing from the Fiscal Service and the Federal Financing Bank and related interest receivable and payable, interest expense and revenue, and federal loans receivable and payable.
  - Benefit activities include contributions by federal entities into employee benefit programs (retirement, life insurance, workers' compensation, and health benefits) administered by the Office of Personnel Management and the Department of Labor.
  - Buy/Sell activities between entities include buy and sell costs and revenues, accounts receivable and payable, and advances to and from others.
  - Transfers of funds include transfers payable and receivable, and transfers in and out without reimbursement.
  - General Fund of the U.S. Government (General Fund) transactions and balances include fund balance with Treasury, appropriations received and warrants, and custodial and non-entity collections.<sup>30</sup>

Treasury has various efforts under way to address this impediment, including the following key initiatives.

- Treasury implemented the Governmentwide Treasury Account Symbol Adjusted Trial Balance System in fiscal year 2014, which among other things, provided more complete financial data from entities that are intended to improve the analysis of intragovernmental differences.
- In fiscal year 2015, Treasury continued to actively work with significant federal entities to resolve intragovernmental differences

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<sup>30</sup>The General Fund is a component of Treasury's central accounting function. It is a stand-alone reporting entity that comprises the activities fundamental to funding the federal government (e.g., issued budget authority, cash activity, and debt financing activities).

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through its quarterly scorecard process.<sup>31</sup> This process highlights differences requiring the entities' attention, identifies differences that need to be resolved through a formal dispute resolution process as set out in the *Treasury Financial Manual*,<sup>32</sup> and reinforces the entities' responsibilities to resolve intragovernmental differences.

- In the third quarter of fiscal year 2015, Treasury began implementing a new initiative to identify and monitor systemic root causes of intragovernmental differences.

As a result of these and other actions, a significant number of intragovernmental differences were identified and resolved. While progress was made, we continued to note that amounts reported by federal entity trading partners to Treasury were not in agreement by material amounts. Reasons for the differences cited by several CFOs included differing accounting methodologies, accounting errors, and timing differences. In addition, the auditor for DOD reported that DOD, which contributes significantly to the unreconciled amounts, could not accurately identify most of its intragovernmental transactions by customer and was unable to reconcile most intragovernmental transactions with trading partners, which resulted in adjustments that could not be fully supported.

Additionally, for fiscal year 2015, a significant portion of intragovernmental differences were related to unreconciled transactions between the General Fund and federal entity trading partners related to appropriations and other intragovernmental transactions, which amount to hundreds of billions of dollars. In fiscal year 2015, Treasury continued to make significant improvements to the processes used to identify and reconcile General Fund differences. For example, Treasury

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<sup>31</sup>The Office of Management and Budget (OMB) and Treasury identified 39 federal entities that were significant to the fiscal year 2015 governmentwide financial statements, including the 24 CFO Act agencies. For each quarter, Treasury produces a scorecard for each significant entity that reports various aspects of the entity's intragovernmental differences with its trading partners, including the composition of the differences by trading partner and category. Entities are expected to resolve, with their respective trading partners, the differences identified in their scorecards.

<sup>32</sup>When an entity and its respective trading partner cannot resolve an intragovernmental difference, the entity must request Treasury to resolve the dispute. Treasury will review the dispute and issue a decision on how to resolve the difference, which the entities must follow. See *Treasury Financial Manual*, vol. 1, part 2, ch. 4700, appx. 10, § 2.

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- established more specific guidance regarding General Fund-related activity and balances and issued this guidance for federal entities to follow in reporting their financial data;
  - began developing policies and procedures over accounting for and reporting all significant General Fund activity and balances;
  - began reconciling the activity and balances between the General Fund and federal entity trading partners; and
  - implemented certain reconciliations for subcategories relevant to the General Fund, such as debt financing activities.

However, the ability to effectively reconcile General Fund transactions will be hampered until General Fund-related activity and balances are properly accounted for, reported, and audited.

Over the years, we have made several recommendations to Treasury to address these issues. Treasury has taken or plans to take actions to address these recommendations.

## Preparing the Governmentwide Financial Statements

Treasury, in coordination with the Office of Management and Budget (OMB), has implemented several corrective actions during the past few years related to the preparation of the governmentwide financial statements. Corrective actions included implementation of new systems to collect certain additional data from entities and to compile the governmentwide financial statements, and new or enhanced procedures to address certain internal control deficiencies detailed in our previously issued report.<sup>33</sup> However, the federal government continued to have inadequate systems, controls, and procedures to reasonably assure that the governmentwide financial statements are consistent with the underlying audited entity financial statements, properly balanced, and in accordance with U.S. GAAP. For example:

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<sup>33</sup>Most of the issues we identified in fiscal year 2015 existed in fiscal year 2014, and many have existed for a number of years. Most recently, in July 2015, we reported the issues we identified to Treasury and OMB and provided recommendations for corrective action. See GAO, *Management Report: Improvements Needed in Controls over the Processes Used to Prepare the U.S. Consolidated Financial Statements*, [GAO-15-630](#) (Washington, D.C.: July 30, 2015). A detailed discussion of control deficiencies regarding the process for preparing the consolidated financial statements can be found on pp. 259 through 261 of the *2015 Financial Report*.

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- Treasury was unable to properly balance the accrual-based financial statements. To make the fiscal years 2015 and 2014 governmentwide financial statements balance, Treasury recorded a net decrease of \$5.1 billion and a net increase of \$20.4 billion, respectively, to net operating cost on the Statements of Operations and Changes in Net Position, which were identified as “Unmatched transactions and balances.”<sup>34</sup> Treasury recorded an additional net \$1.9 billion and \$1.7 billion of unmatched transactions in the Statement of Net Cost for fiscal years 2015 and 2014, respectively. The material weakness in the federal government’s ability to account for and reconcile intragovernmental activity and balances, discussed above, significantly contributed to the unmatched transactions and balances and consequently impaired Treasury’s ability to fully eliminate such intragovernmental activity and balances.
  - Treasury’s ability to report certain financial information in accordance with U.S. GAAP continues to be impaired and will remain so until federal entities, such as DOD, can provide Treasury with complete and reliable information required to be reported in the governmentwide financial statements.

Over the years, we have made numerous recommendations to Treasury to address these issues, and Treasury has taken or plans to take actions to address these recommendations. In June 2014, we recommended that Treasury, working in coordination with OMB, include all key elements for preparing well-defined corrective action plans from the Chief Financial Officers Council’s *Implementation Guide for OMB Circular A-123, Management’s Responsibilities for Internal Control—Appendix A, Internal Control over Financial Reporting*, in Treasury’s and OMB’s corrective action plans. In fiscal year 2015, Treasury and OMB made significant progress with respect to their corrective action plans by developing a remediation plan that focuses on corrective actions to be taken over the next 3 years to address the material weaknesses in internal control. However, the plans continued to lack certain key elements, such as (1) sufficient information on how progress on interim actions would be monitored and (2) outcome measures for assessing the effectiveness of the corrective actions.

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<sup>34</sup>Although Treasury was unable to determine how much of the unmatched transactions and balances related to net operating cost, it reported this amount as a component of net operating cost in the consolidated financial statements.

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## Material Weaknesses Resulted in Ineffective Internal Control over Financial Reporting

The material weaknesses discussed in our report resulted in ineffective internal control over financial reporting. In addition to the material weaknesses in internal control that contributed to our disclaimer on the financial statements, discussed above, there are three other material weaknesses that were identified during our audit of the fiscal year 2015 governmentwide financial statements. These additional material weaknesses consist of the federal government's inability to (1) determine the full extent to which improper payments occur and reasonably assure that appropriate actions are taken to reduce them, (2) identify and resolve information security control deficiencies and manage information security risks on an ongoing basis, and (3) effectively manage its tax collection activities.<sup>35</sup>

## Improper Payments

Improper payments are a significant and pervasive governmentwide issue.<sup>36</sup> Initial estimates of improper payments for certain programs were developed as part of the initial financial statement audits under GMRA, and we first reported that the federal government was unable to determine the full extent of improper payments in our report on the fiscal year 1997 governmentwide financial statements. Since fiscal year 2003—when certain agencies began reporting improper payments as required by the Improper Payments Information Act of 2002 (IPIA)—cumulative

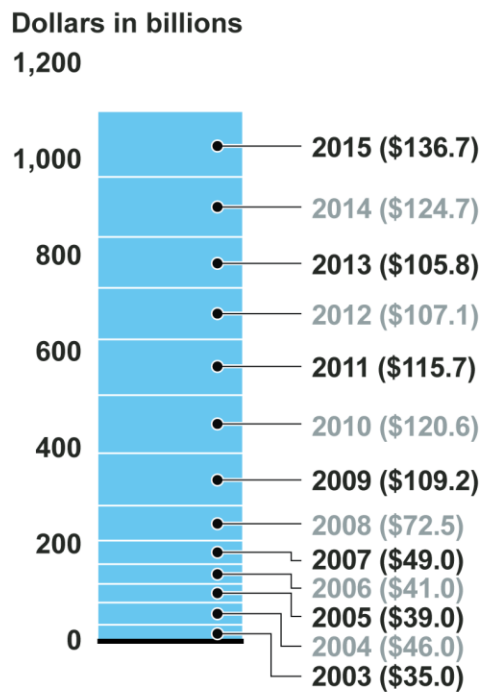
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<sup>35</sup>A detailed discussion of these material weaknesses, including the primary effects of the material weaknesses on the accrual-based financial statements and on the management of federal government operations, can be found on pp. 263 through 266 of the *2015 Financial Report*.

<sup>36</sup>Under the Improper Payments Information Act of 2002 (IPIA), as amended, an improper payment is statutorily defined as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. OMB guidance also instructs agencies to report as improper payments any payments for which insufficient or no documentation was found.

improper payment estimates have totaled over \$1 trillion,<sup>37</sup> as shown in figure 1.

**Figure 1: Cumulative Improper Payment Estimates for Fiscal Years 2003 through 2015**



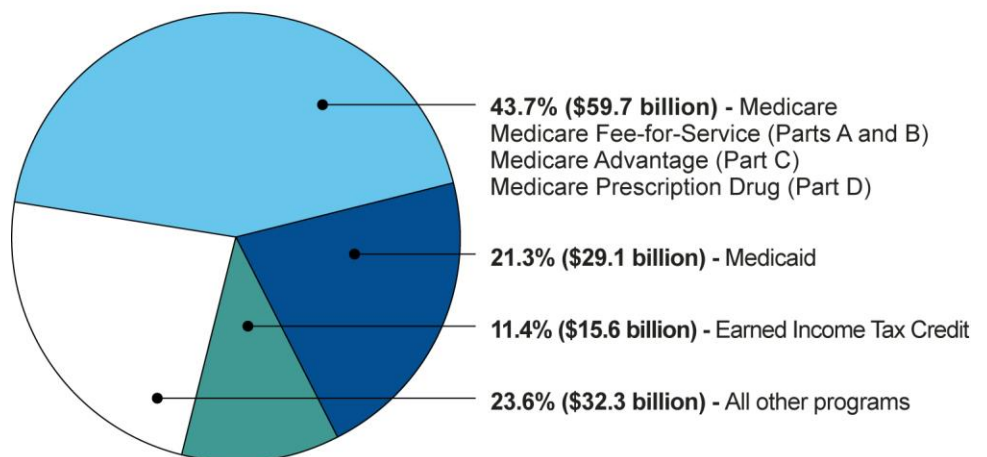
Source: GAO. | GAO-16-541T

Note: Generally, the specific programs and total number of programs that constitute the governmentwide improper payment estimate vary from year to year. In earlier years, the number of programs included in the governmentwide estimate generally increased as programs reported improper payment estimates for the first time.

<sup>37</sup>IPIA—as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA)—requires executive branch agencies to (1) review all programs and activities, (2) identify those that may be susceptible to significant improper payments, (3) estimate the annual amount of improper payments for those programs and activities identified as risk-susceptible, (4) implement actions to reduce improper payments and set reduction targets with respect to the risk-susceptible programs and activities, and (5) report on the results of addressing the foregoing requirements. IPIA, Pub. L. No. 107-300, 116 Stat. 2350 (Nov. 26, 2002), as amended by IPERA, Pub. L. No. 111-204, 124 Stat. 2224 (July 22, 2010), and IPERIA, Pub. L. No. 112-248, 126 Stat. 2390 (Jan. 10, 2013), and reprinted in 31 U.S.C. § 3321 note.

In fiscal year 2015, agencies reported improper payment estimates totaling \$136.7 billion, a significant increase—over \$12 billion, mainly due to an increased error rate in Medicaid—from the prior year’s revised estimate of \$124.6 billion. The estimated governmentwide error rate increased from fiscal year 2014 to fiscal year 2015 (from 4.5 percent of program outlays to 4.8 percent).<sup>38</sup> The estimated improper payments for fiscal year 2015 were attributable to 121 programs spread among 22 agencies. While these 121 programs span various agencies across the federal government, improper payment estimates for Medicare, Medicaid, and the Earned Income Tax Credit accounted for more than 76 percent of the governmentwide estimate, as shown in figure 2.

**Figure 2: GovernmentWide Improper Payment Estimates by Program for Fiscal Year 2015**



Source: GAO analysis of agencies' data. | GAO-16-541T

We have identified various strategies and recommendations that could help to reduce improper payments in these key programs, including

<sup>38</sup>These estimates exclude DOD’s Defense Finance and Accounting Service’s Commercial Pay program because of concerns regarding the reliability of its improper payment estimate. When including the program, the governmentwide improper payment estimate was \$136.9 billion and the error rate was 4.4 percent for fiscal year 2015, up from \$124.6 billion and 4.0 percent in fiscal year 2014.

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requiring states to conduct audits of payments to and by Medicaid managed care organizations.<sup>39</sup>

The federal government has made progress in identifying programs that are susceptible to improper payments and including them in its estimate of governmentwide improper payments and recovering overpayments. However, further efforts are needed to ensure that all risk-susceptible programs are included, estimates are reliable, and improper payments are reduced. For example, three federal entities did not report fiscal year 2015 estimated improper payment amounts for five risk-susceptible programs, including the Department of Health and Human Services' Temporary Assistance for Needy Families. Further, various inspectors general reported deficiencies related to compliance with the criteria listed in the Improper Payments Elimination and Recovery Act of 2010 for fiscal year 2014 at their respective federal entities, including risk-susceptible programs that did not report improper payment estimates, estimation methodologies that may not produce reliable estimates, and risk assessments that may not accurately assess the risk of improper payment. Until the federal government has implemented effective processes to determine the full extent to which improper payments occur and has taken appropriate actions across entities and programs to effectively reduce improper payments, it will not have reasonable assurance that the use of federal funds is adequately safeguarded.

## Information Security

GAO has reported information security as a high-risk area across government since February 1997. During our fiscal year 2015 audit, we found that serious and widespread information security control deficiencies continued to place

- federal assets at risk of inadvertent or deliberate misuse,
- financial information at risk of unauthorized modification or destruction,
- sensitive information at risk of inappropriate disclosure, and
- critical operations at risk of disruption.

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<sup>39</sup>GAO, *Fiscal Outlook: Addressing Improper Payments and the Tax Gap Would Improve the Government's Fiscal Position*, [GAO-16-92T](#) (Washington, D.C.: Oct. 1, 2015).

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Specifically, control deficiencies were identified related to (1) security management; (2) access to computer resources (data, equipment, and facilities); (3) changes to and configuration of information system resources; (4) segregation of incompatible duties; and (5) contingency planning. Such information security control deficiencies unnecessarily increase the risk that data recorded in or transmitted by federal financial management systems are not reliable and available.

Although significant challenges remain, the federal government has taken actions toward improving information security. For example, Congress passed and the President signed the Federal Information Security Modernization Act of 2014, and the Federal Chief Information Officer launched a 30-day Cybersecurity Sprint intended to improve the protection of federal information and systems. At the end of the Cybersecurity Sprint, according to OMB, federal agencies increased their use of strong authentication from 42 percent to 72 percent. Further, the administration has issued a cybersecurity strategy and implementation plan for federal civilian agencies to guide efforts to improve the security over their information and systems. It also plans to continue to oversee agency security efforts by monitoring the implementation of cybersecurity capabilities, such as strong authentication, continuous monitoring, anti-phishing and malware defense, and developing or monitoring performance-based metrics to measure their success.

However, until entities identify and resolve information security control deficiencies and manage information security risks on an ongoing basis, federal data and systems, including financial information, will remain at risk.

## Tax Collection Activities

During fiscal year 2015, a material weakness continued to affect the federal government's ability to effectively manage its tax collection activities. Due to financial system limitations, as well as errors in taxpayers' accounts, the federal government's records did not always reflect the correct amount of taxes owed by the public to the federal government. Such errors may cause undue burden and frustration to taxpayers who either have already paid taxes owed or who owe significantly lower amounts.

Collectively, these deficiencies indicate that internal controls were not effective in (1) ensuring that reported amounts of taxes receivable and other tax assessments were accurate on an ongoing basis and could be relied upon by management as a tool to aid in making and supporting resource allocation decisions and (2) supporting timely and reliable

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financial statements, accompanying notes, and required supplementary information and other information without extensive supplemental procedures and adjustments.

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**Significant Uncertainties and a Material Weakness in Internal Control over Financial Reporting Resulted in a Disclaimer of Opinion on the Sustainability Financial Statements**

Significant uncertainties, which primarily related to the achievement of projected reductions in Medicare cost growth, affected the sustainability financial statements. In addition, the material weakness related to the (1) Reconciliations of Net Operating Cost and Unified Budget Deficit and (2) Statements of Changes in Cash Balance from Unified Budget and Other Activities, hampered the federal government's ability to demonstrate the reliability of historical budget information used for certain key inputs to the 2015 Statement of Long-Term Fiscal Projections.<sup>40</sup> As a result, these significant uncertainties and material weakness prevented us from expressing opinions on the 2015 Statement of Long-Term Fiscal Projections; the 2015, 2014, 2013, 2012, and 2011 Statements of Social Insurance;<sup>41</sup> and the 2015 and 2014 Statements of Changes in Social Insurance Amounts.<sup>42</sup> The sustainability financial statements present the present value of the federal government's estimated future receipts and future spending using a projection period sufficient to illustrate long-term sustainability.<sup>43</sup> The sustainability financial statements are intended to aid

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<sup>40</sup>As required by Statement of Federal Financial Accounting Standards No. 36, "Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government," as amended, the federal government presented a new basic financial statement, the Statement of Long-Term Fiscal Projections, for fiscal year 2015, along with the related notes, as part of the consolidated financial statements. The Statement of Long-Term Fiscal Projections presents, for all the activities of the federal government, the present value of projected receipts and noninterest spending under current policy without change, the relationship of these amounts to projected gross domestic product, and changes in the present value of projected receipts and noninterest spending from the prior year. The unaudited Statement of Long-Term Fiscal Projections for the fiscal year ended September 30, 2014, was presented for comparison purposes and was not subject to audit.

<sup>41</sup>Social insurance programs included in the Statement of Social Insurance are Social Security, Medicare, Railroad Retirement, and Black Lung.

<sup>42</sup>About \$27.9 trillion, or 67.3 percent, of the federal government's reported total present value of future expenditures in excess of future revenue presented in the 2015 Statement of Social Insurance relates to Medicare programs reported in the Department of Health and Human Services' 2015 Statement of Social Insurance, which received a disclaimer of opinion.

<sup>43</sup>The projection period used for the Social Security, Medicare, and Railroad Retirement social insurance programs is 75 years. For the Black Lung program, the projections are through September 30, 2040.

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users in assessing whether future resources will likely be sufficient to sustain public services and to meet obligations as they come due. The Statements of Social Insurance and Changes in Social Insurance Amounts are based on income and benefit formulas in current law and assume that scheduled benefits will continue after any related trust funds are exhausted.<sup>44</sup> The Statements of Long-Term Fiscal Projections are based on the continuation of current policy. The sustainability financial statements are not forecasts or predictions.

For 2015, these significant uncertainties primarily related to the following.

- Medicare projections in the 2015 Statement of Long-Term Fiscal Projections and the 2015 Statement of Social Insurance were based on benefit formulas under current law and included a significant reduction in Medicare payment rates for productivity improvements relating to most categories of Medicare providers,<sup>45</sup> based on full implementation of the provisions of the Patient Protection and Affordable Care Act, as amended (ACA),<sup>46</sup> and physician payment updates specified by the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA).<sup>47</sup>
- Management has noted that actual future costs for Medicare are likely to exceed those shown by the current law projections presented in the 2015 Statement of Social Insurance due, for example, to the likelihood of modifications to the scheduled reductions in Medicare payment

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<sup>44</sup>The 2014 Statement of Social Insurance reflected a projected baseline that assumed that the physician payment rate reductions in current law would not occur and that physician payment rates would annually increase at a rate equal to the average sustainable growth rate (SGR) override that occurred over the 10-year period ending on March 31, 2015.

<sup>45</sup>These categories include, but are not limited to, inpatient/outpatient hospital services, skilled nursing facilities, home health care, ambulance, ambulatory surgical centers, durable medical equipment, and prosthetics.

<sup>46</sup>ACA, Pub. L. No. 111-148, 124 Stat. 119 (Mar. 23, 2010), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029 (Mar. 30, 2010). In this testimony, references to ACA include any amendments made by the Health Care and Education Reconciliation Act of 2010.

<sup>47</sup>MACRA, Pub. L. No. 114-10, title I, § 101, 129 Stat. 87, 89 (Apr. 16, 2015). MACRA included many provisions that affect Medicare, including the repeal of the SGR formula for calculating annual updates to Medicare reimbursement payment rates to physicians and certain nonphysician medical providers and established an alternative set of annual updates.

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rates for productivity adjustments relating to most categories of Medicare providers and to the specified physician payment updates. The extent to which actual future costs exceed the current law projected amounts due to changes to the scheduled reductions in Medicare payment rates for productivity adjustments and to the specified physician payment updates depends on both the specific changes that might be legislated and whether such legislation would include further provisions to help offset such costs. Consequently, there are significant uncertainties concerning the achievement of these projected reductions in Medicare payment rates.

- Management has developed an illustrative alternative projection intended to provide additional context regarding the long-term sustainability of the Medicare program and to illustrate the uncertainties in the Statement of Social Insurance projections. The present value of future estimated expenditures in excess of future estimated revenue for Medicare, included in the illustrative alternative projection, exceeds the \$27.9 trillion estimate in the 2015 Statement of Social Insurance by \$8.9 trillion.
- Management noted that these significant uncertainties about projected reductions in health care cost growth also affect the projected Medicare and Medicaid costs reported in the 2015 Statement of Long-Term Fiscal Projections.

Projections of Medicare costs are sensitive to assumptions about future decisions by policymakers and about the behavioral responses of consumers, employers, and health care providers as policy, incentives, and the health care sector change over time. Such secondary impacts are not fully reflected in the sustainability financial statements but could be expected to influence the excess cost growth rate used in the projections.<sup>48</sup> Key drivers of uncertainty about the excess cost growth rate include the future development and deployment of medical technology, the evolution of personal income, and the cost and availability of insurance, as well as federal policy changes, such as the implementation of ACA.

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<sup>48</sup>The excess cost growth rate is the increase in health care spending per person relative to the growth of gross domestic product per person after removing the effects of demographic changes on health care spending.

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## The *Financial Report* Presents Important Information on Accrual Costs Incurred by the Federal Government and Highlights Certain Financial Risks

Because the federal government's and individual agencies' financial statements are presented on an accrual basis, they include information on the federal government's liabilities and highlight certain financial risks that are not included in the generally cash-based budget. As reported in the *2015 Financial Report*, the federal government's reported "bottom line" accrual net operating cost for fiscal year 2015 of \$520 billion was \$81 billion higher than the reported budget deficit of \$440 billion. The excess of the accrual net operating cost over the budget deficit is primarily due to accrued costs (incurred but not necessarily paid) associated with increases in estimated federal employee and veteran benefits liabilities and certain other liabilities that are included in net operating cost, but not the budget deficit.

Examples of liabilities and related costs that are recognized in the *Financial Report* as of September 30, 2015, but are not recognized in the budget include the following:

- Federal employee and veteran benefits payable for benefits earned but not yet paid of \$6.7 trillion,
- Environmental and disposal liabilities for cleaning up environmental contamination of \$412 billion, and
- Insurance and guarantee program liabilities for estimated unpaid insurance and guarantee program claims of \$178 billion.

Additionally, the *2015 Financial Report* and individual agency financial statements provide information related to risks that could affect the federal government's financial condition in the future, including the following.

- The Pension Benefit Guaranty Corporation's (PBGC) financial future is uncertain because of long-term challenges related to PBGC's governance and funding structure. PBGC's liabilities exceeded its assets by over \$76 billion as of September 30, 2015—an increase of over \$14 billion from the end of fiscal year 2014. PBGC reported that it is subject to further losses if plan terminations that are considered reasonably possible occur.
- In 2008, during the financial crisis, the federal government placed the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) under conservatorship and entered into preferred stock purchase agreements with these government-sponsored enterprises (GSE) to

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help ensure their financial stability. The agreements with the GSEs could affect the federal government's financial position. As of September 30, 2015, the federal government continued to report about \$106 billion of investments in the GSEs, which is net of about \$88 billion in valuation losses. Cash dividends paid by the GSEs to Treasury under the agreements totaled \$20.4 billion and \$72.5 billion during fiscal years 2015 and 2014, respectively. Although Treasury does not believe that any further draws by the GSEs are probable, the reported maximum remaining contractual commitment to the GSEs, if needed, is \$258.1 billion. Importantly, the ultimate role of the GSEs in the mortgage market could affect the financial condition of the Federal Housing Administration, which in the past expanded its lending role in distressed housing and mortgage markets.

- The U.S. Postal Service (USPS) continues to be in a serious financial crisis as it has reached its borrowing limit of \$15 billion and finished fiscal year 2015 with a reported net loss of \$5.1 billion.

Every 2 years, GAO provides Congress with an update on its High Risk Series, which highlights federal entities and program areas that are at high risk due to their vulnerabilities to fraud, waste, abuse, and mismanagement or are most in need of broad reform. We issued our most recently updated High Risk Series on February 11, 2015.<sup>49</sup> GAO's High Risk Series includes most of the above-noted issues, such as DOD financial management, government information security, USPS's business model, the PBGC insurance programs, and the financial regulatory system for housing finance. Another area included in the High Risk Series that could affect the federal government's financial condition in the future is the Internal Revenue Service's (IRS) enforcement of tax laws, including reducing the net tax gap—the difference between taxes owed and taxes paid—which was last estimated to be \$385 billion. Unaudited information on the tax gap is also reported in the *Financial Report*.

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<sup>49</sup>[GAO-15-290](#).

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Even modest reductions of the net tax gap would result in billions of dollars in additional revenue collected each year.<sup>50</sup> We have made various recommendations to IRS on reducing the tax gap that remain open, including using return on investment data to reallocate its enforcement resources and potentially increase revenues and making improvements to telephone and online services to help IRS deliver high-quality services to taxpayers who wish to comply with tax laws but do not understand their obligations.<sup>51</sup>

Other strategies we have suggested to address the tax gap would require legislative actions, such as requiring additional taxpayers to electronically file tax and information returns, which could help IRS improve compliance in a resource-efficient way. We have also suggested that Congress consider granting IRS the authority to regulate paid tax preparers. In a limited study, we found that preparers made significant errors.<sup>52</sup> Because paid tax preparers account for almost 60 percent of all tax returns filed, they have an enormous impact on IRS's ability to administer tax laws effectively. Finally, IRS has the authority to correct calculation errors and check for other obvious noncompliance, such as claims above income and credit limits. Expanding such authority—which we have suggested Congress consider with appropriate safeguards—could help IRS correct additional errors and avoid burdensome audits and taxpayer penalties.<sup>53</sup>

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<sup>50</sup>IRS last estimated the tax gap in 2012 for tax year 2006. IRS estimated the gross tax gap to be \$450 billion, of which it would eventually recover about \$65 billion through late payments and enforcement actions, leaving an annual net tax gap of about \$385 billion. According to an IRS official, the agency plans to release an updated tax gap estimate in 2016, which will be based on tax years 2008, 2009, and 2010.

<sup>51</sup>[GAO-16-92T](#), and GAO, *Tax Gap: IRS Could Significantly Increase Revenues by Better Targeting Enforcement Resources*, [GAO-13-151](#) (Washington, D.C.: Dec. 5, 2012).

<sup>52</sup>GAO, *Paid Tax Return Preparers: In a Limited Study, Preparers Made Significant Errors*, [GAO-14-467T](#) (Washington, D.C.: Apr. 8, 2014).

<sup>53</sup>GAO, *Recovery Act: IRS Quickly Implemented Tax Provisions, but Reporting and Enforcement Improvements Are Needed*, [GAO-10-349](#) (Washington, D.C.: Feb. 10, 2010). We recently recommended that IRS assess whether data received from the health insurance marketplaces are sufficiently complete and accurate to be used to correct claims for the premium tax credit on returns, and if the assessment determines that such corrections would be effective, seek legislative “correctible error” authority for this specific purpose. GAO, *Patient Protection and Affordable Care Act: IRS Needs to Strengthen Oversight of Tax Provisions for Individuals*, [GAO-15-540](#) (Washington, D.C.: July 29, 2015).

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## Long-Term Fiscal Challenges

The comprehensive long-term fiscal projections for the government included in the *2015 Financial Report* provide a much needed perspective on the federal government's long-term fiscal position and outlook. Although the timing and size of the increase in debt as a share of gross domestic product (GDP) varies depending on the assumptions used, both the long-term fiscal projections for the government included in the *2015 Financial Report* and GAO's own recent long-term fiscal simulations show that, absent policy changes, the federal government continues to face an unsustainable long-term fiscal path.<sup>54</sup> The projections included in the *2015 Financial Report* and our simulations both underscore the need to take action soon to address the long-term path to avoid larger policy changes in the future that could be disruptive to individuals and the economy, while also taking into account concerns about near-term economic growth.

In the near term, the projections in the *2015 Financial Report* show the primary deficit continuing to decline from the recent historic highs. However, these projections do not reflect recent legislation enacted subsequent to September 30, 2015, which, in order to achieve certain national priorities and goals, causes deficits to increase in the near term.<sup>55</sup> Both the projections in the *2015 Financial Report* and our long-term simulations follow the spending limits enacted in the Balanced Budget

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<sup>54</sup>We prepare long-term federal fiscal simulations, using different sets of assumptions. See GAO, *Fiscal Outlook: Federal Fiscal Outlook* (2016), (Washington, D.C.: 2016), accessed April 1, 2016, [http://www.gao.gov/fiscal\\_outlook/federal\\_fiscal\\_outlook/overview](http://www.gao.gov/fiscal_outlook/federal_fiscal_outlook/overview).

<sup>55</sup>The 2015 Statement of Long-Term Fiscal Projections is based on current policy as of September 30, 2015. This is prior to the enactment of the Bipartisan Budget Act of 2015 and the Consolidated Appropriations Act, 2016; therefore, the projections do not reflect the effects of these two statutes. Management notes that neither statute is expected to have a material effect on the long-term fiscal projections in its report.

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and Emergency Deficit Control Act of 1985 (BBEDCA), as amended.<sup>56</sup> Under these limits, discretionary spending will continue to decline as a share of the economy and within the next 5 years will be lower as a share of GDP than any level seen in the last 50 years. At the same time, the projections in the *2015 Financial Report* show revenues rising in the near term as the economy continues to recover. Our long-term simulations show revenues rising in some years and declining in others in the near term.

Over the long term, at the federal level, the imbalance between spending and revenue that is built into current law and policy is projected to lead to continued growth of debt held by the public as a share of GDP. This situation—in which debt grows faster than GDP—means the current federal fiscal path is unsustainable. Today, debt held by the public as a share of GDP remains well above the post-war historical average of 43 percent since 1946. At the end of fiscal year 2015, it reached about 74 percent of GDP—the second highest (after fiscal year 2014, when it was slightly higher) since 1950.

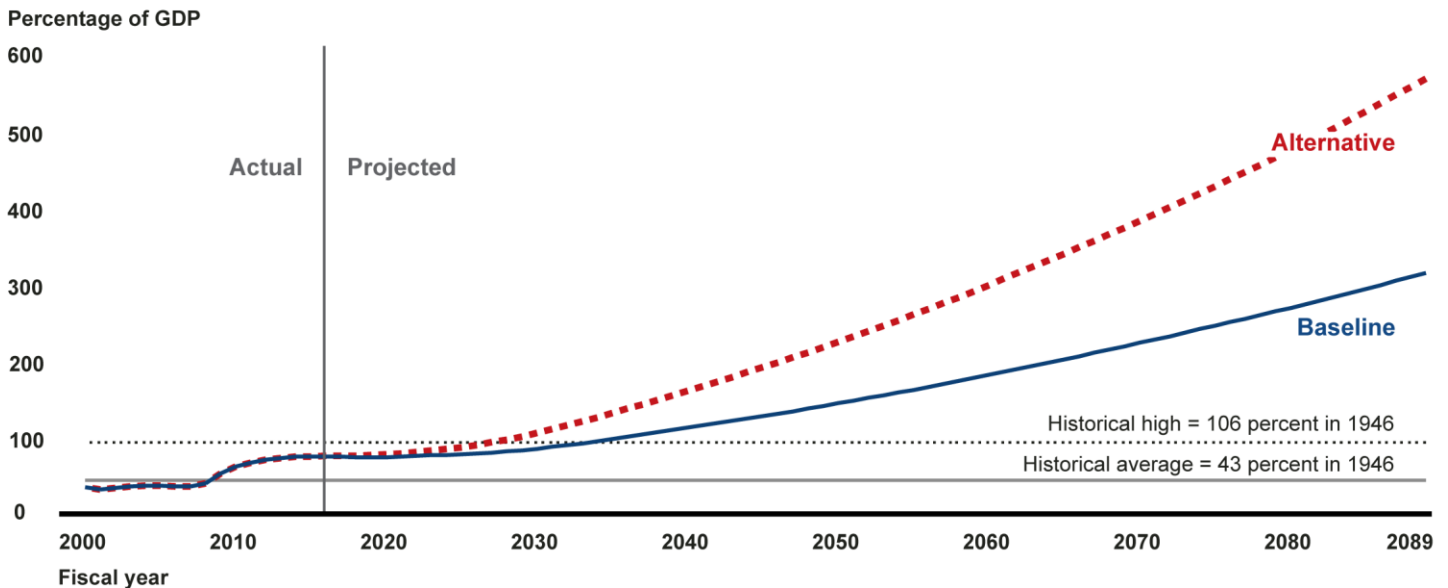
Under our long-term simulations, debt held by the public as a share of GDP will surpass its historical high (106 percent in 1946) within 15 to 25 years (see fig. 3). By 2089, the last year of GAO's 75-year projection period, debt held by the public as a share of GDP reaches 314 percent in

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<sup>56</sup>The Budget Control Act of 2011 (BCA) amended BBEDCA, imposing discretionary spending limits for fiscal years 2012 through 2021 to reduce projected spending by about \$1 trillion. Pub. L. No. 112-25, 125 Stat. 240 (Aug. 2, 2011). BCA also established the Joint Select Committee on Deficit Reduction (Joint Committee), which was tasked with proposing legislation to reduce the deficit by at least an additional \$1.2 trillion through fiscal year 2021. The Joint Committee did not report a proposal, and Congress and the President did not enact legislation. This triggered the sequestration process in section 251A of BBEDCA. Section 251A, as amended by BCA, required (1) a sequestration for fiscal year 2013 and (2) annual downward adjustments to discretionary spending limits and sequestration of direct spending from fiscal years 2014 through 2021. BBEDCA has been amended several times since August 2011, most recently by the Bipartisan Budget Act of 2015 (BBA), which increased discretionary spending limits for fiscal years 2016 and 2017. BBA also extended the sequestration of direct spending through fiscal year 2025 and made other changes to direct spending and revenue. Pub. L. No. 114-74, §§ 101, 102, 129 Stat. 584, 585-87 (Nov. 2, 2015). Our long-term simulations reflect the effects of BBA.

our baseline extended simulation or 568 percent in our alternative simulation.<sup>57</sup>

**Figure 3: Debt Held by the Public under GAO's Two Policy Simulations**



Source: GAO. | GAO-16-541T

Note: Data are from GAO's 2016 simulations.

The federal government will not be able to sustain these budget paths over the long term. Debt at these high levels could limit the federal government's flexibility to address emerging issues and unforeseen challenges, such as another economic downturn or large-scale disaster. Our past work has identified a variety of fiscal exposures—

<sup>57</sup>We run two long-term simulations—the baseline extended and alternative. The baseline extended simulation begins with a baseline using Congressional Budget Office estimates and generally assumes current law continues into the future, such as the expiration of tax credits as scheduled. The alternative simulation changes some of the baseline assumptions to reflect historical trends rather than current law. For example, tax provisions that are scheduled to expire are extended and discretionary spending follows the caps established in the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, but not the lower caps triggered by the automatic enforcement procedures. For more information on our simulations, see GAO, *Fiscal Outlook: Federal Fiscal Outlook* (2016), accessed April 1, 2016, [http://www.gao.gov/fiscal\\_outlook/federal\\_fiscal\\_outlook/overview](http://www.gao.gov/fiscal_outlook/federal_fiscal_outlook/overview).

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responsibilities, programs, and activities that explicitly or implicitly expose the federal government to future spending.<sup>58</sup> Fiscal exposures vary widely as to source, extent of the government's legal commitment, and magnitude. Examples are responses to natural disasters, pension guarantees, financial crises, and ensuring care for veterans. Over the past decade, some fiscal exposures have grown due to events and trends and the government's response to them. Increased attention to these fiscal exposures will be important for understanding risks to the federal fiscal outlook and enhancing oversight of federal resources.

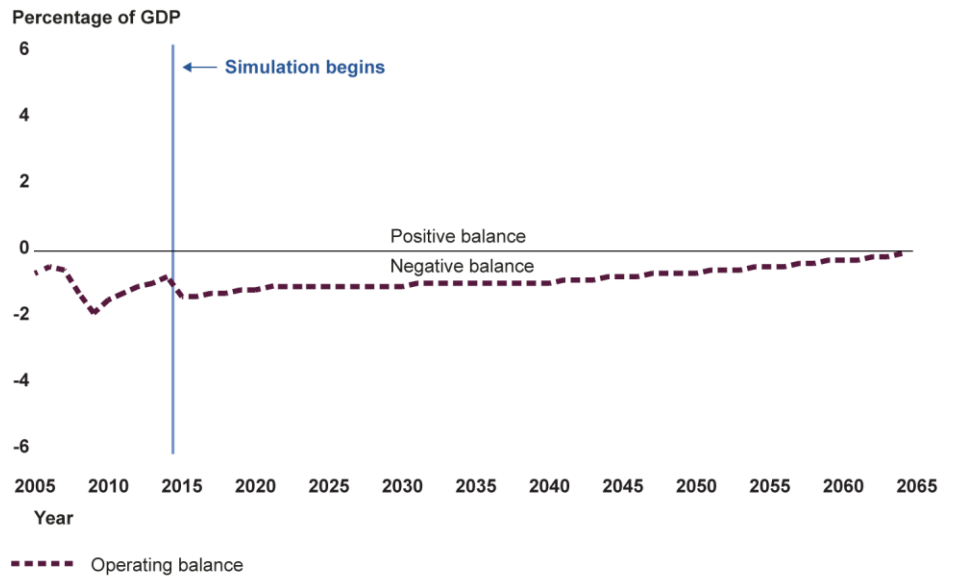
Our simulations show that all levels of government face long-term fiscal challenges, which could affect future federal funding of intergovernmental programs, as well as the potential capacity of state and local governments to help fund and implement these programs. As shown in figure 4, our simulations suggest that the state and local government sector could continue to face a gap between revenue and spending during the next 50 years, and that state and local governments would need to make substantial policy changes to avoid these fiscal imbalances in the future.<sup>59</sup> The simulation assumes that the tax structure is unchanged in the future and that the provision of real government services per capita remains relatively constant.

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<sup>58</sup>GAO, *Fiscal Outlook: Federal Fiscal Outlook* (2016), accessed April 1, 2016, [http://www.gao.gov/fiscal\\_outlook/federal\\_fiscal\\_outlook/overview](http://www.gao.gov/fiscal_outlook/federal_fiscal_outlook/overview) and *Fiscal Exposures: Improving Cost Recognition in the Federal Budget*, GAO-14-28 (Washington, D.C.: Oct. 29, 2013).

<sup>59</sup>GAO, *State and Local Government's Fiscal Outlook: 2015 Update*, GAO-16-260SP (Washington, D.C.: Dec. 16, 2015). See also, GAO, *Fiscal Outlook: State and Local Fiscal Model* (2015), accessed April 1, 2016, [http://www.gao.gov/fiscal\\_outlook/state\\_local\\_fiscal\\_model/overview](http://www.gao.gov/fiscal_outlook/state_local_fiscal_model/overview).

**Figure 4: State and Local Simulated Operating Balance Measure, as a Percentage of Gross Domestic Product (GDP)**



Sources: GAO calculations using Bureau of Economic Analysis data and GAO simulations, updated December 2015. | GAO-16-541T

Notes: The simulated operating balance is a measure of the sector's ability to cover its current expenditures out of current receipts. The simulated operating balance measure is all receipts, excluding funds used for long-term investments, minus current expenditures. See [GAO-16-260SP](#) for details on how we developed this measure.

The interconnectedness that defines intergovernmental programs requires that officials at all levels of government remain aware of and ready to respond to fiscal pressures. This interconnectedness is something that must be kept in mind as decision makers seek to address the federal fiscal challenge.

## Debt Limit

As discussed in our report on the *Financial Report*, the debt limit does not restrict Congress's ability to enact spending and revenue legislation that affects the level of federal debt or otherwise constrain fiscal policy; it restricts Treasury's authority to borrow to finance the decisions already enacted by Congress and the President.<sup>60</sup> The United States benefits

<sup>60</sup>GAO, *Debt Limit: Analysis of 2011-2012 Actions Taken and Effect of Delayed Increase on Borrowing Costs*, [GAO-12-701](#) (Washington, D.C.: July 23, 2012), and *Debt Limit: Delays Create Debt Management Challenges and Increase Uncertainty in the Treasury Market*, [GAO-11-203](#) (Washington, D.C.: Feb. 22, 2011).

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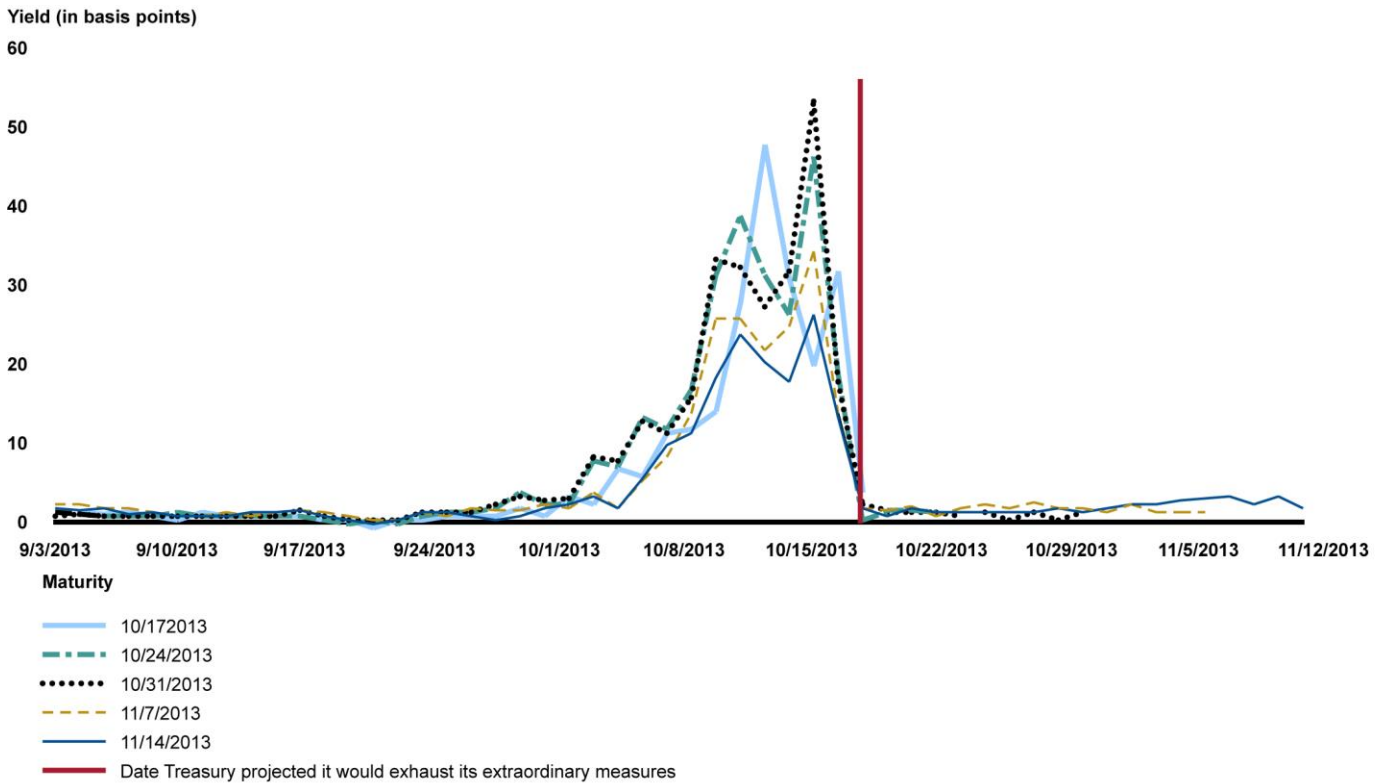
from the confidence investors have that debt backed by the full faith and credit of the United States will be honored. Because Treasury securities are viewed as one of the safest assets in the world, they are broadly held by individuals—often in pension funds or mutual funds—and by institutions and central banks for use in everyday transactions. In many ways, Treasury securities are the underpinning of the world financial system.

In our July 2015 report on the debt limit, we found that during the 2013 debt limit impasse, investors reported taking the unprecedented action of systematically avoiding certain Treasury securities—those that matured around the dates when Treasury projected it would exhaust the extraordinary measures that it uses to manage federal debt when it is at the limit.<sup>61</sup> For the affected Treasury securities, these actions resulted in both a dramatic increase in rates and a decline in liquidity in the secondary market where securities are traded among investors. In 2013, secondary market yields on Treasury bills maturing in late October through mid-November rose from about 1 basis point (or one-one hundredth of a percent) in mid-September to over 50 basis points prior to the resolution of the impasse on October 17 (see fig. 5). In addition, there were also unusually low levels of demand at the relevant auctions and additional borrowing costs to Treasury. Treasury securities are one of the lowest cost and widely used forms of collateral for financial transactions, and because of this, disruptions to the Treasury market from the 2013 debt limit impasse extended into other markets, such as short-term financing.

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<sup>61</sup>GAO, *Debt Limit: Market Response to Recent Impasses Underscores Need to Consider Alternative Approaches*, [GAO-15-476](#) (Washington, D.C.: July 9, 2015).

**Figure 5: Secondary Market Yields on Treasury Bills Maturing in Late October through Mid-November 2013 (in Basis Points)**



Source: GAO analysis of Bloomberg data. | GAO-16-541T

In July 2015, we reported that investors told us that they were now prepared to take similar steps to systematically avoid certain Treasury securities during future debt limit impasses. Market participants with whom we spoke said market reaction to future impasses could be more severe, in part because of changes in market practices since the financial crisis and in part because of contingency plans that many investors now have in place. Industry groups emphasized that even a temporary delay in payment could undermine confidence in the full faith and credit of the United States and therefore cause significant damage to markets for Treasury securities and other assets. This would affect not only institutions, but also individuals.

While increased rates on Treasury securities in the secondary market affect the amount of return on investment for private investors, changes in the rates paid at Treasury auctions affect the amount that Treasury—and

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ultimately the American taxpayer—pays in interest on federal debt. Our analysis indicated that the additional borrowing costs that Treasury incurred rose rapidly in the final weeks and days leading up to the October 2013 deadline when Treasury projected it would exhaust its extraordinary measures. We estimated the total increased borrowing costs incurred through September 30, 2014, on securities issued by Treasury during the 2013 debt limit impasse. These estimates ranged from roughly \$38 million to more than \$70 million, depending on the specifications used.

To avoid uncertainty and the disruption to the Treasury market that it creates, as well as to help inform the fiscal policy debate in a timely way, we have suggested that Congress should consider ways to better link decisions about the debt limit with decisions about spending and revenue at the time those decisions are made.<sup>62</sup> In our July 2015 report, we discussed several potential approaches to delegating borrowing authority that Congress could consider that would both achieve this link and minimize disruptions to the market.<sup>63</sup> All of the options also maintain congressional control and oversight of federal borrowing. These approaches are as follows:

- **Link action on the debt limit to the budget resolution:** This is a variation of a previously used approach under which legislation raising the debt limit to the level envisioned in the Congressional Budget Resolution would be spun off and either be deemed to have passed or be voted on immediately thereafter.
- **Provide the administration with the authority to increase the debt limit, subject to a congressional motion of disapproval:** This is a variation of an approach contained in the Budget Control Act of 2011. Congress would give the administration the authority to propose a change in the debt limit, which would take effect absent enactment of a joint resolution of disapproval within a specified time frame.
- **Delegate broad authority to the administration to borrow as necessary to fund enacted laws:** This is an approach used in some other countries: delegate to the administration the authority to borrow

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<sup>62</sup>[GAO-12-701](#) and [GAO-11-203](#).

<sup>63</sup>[GAO-15-476](#).

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such sums as necessary to fund implementation of the laws duly enacted by Congress and the President. Since laws that affect federal spending and revenue that create the need for debt already require adoption by Congress, Congress would still maintain control over the amount of federal borrowing.

To further assist with congressional consideration, our July 2015 report identified key design issues to consider for each option.<sup>64</sup>

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In closing, while progress has been made in addressing federal financial management challenges, much work remains given the federal government's long-term fiscal path and the need for Congress, the administration, and federal managers to have more reliable, useful, and timely financial and performance information to effectively meet these challenges, to make sound decisions, and to operate as efficiently and effectively as possible. The Financial Report, including sustainability reporting, and the Budget are both critical to understanding the fiscal and financial condition of the federal government. As the Budget Committee, you know that the federal budget serves as the primary financial plan of the government and plays a critical role in the decision-making process. Policymakers, managers, and the American people rely on it to frame their understanding of significant choices about the role of the government and to provide them with information to make decisions about individual programs and overall fiscal policy. The information in the financial statements can help further inform budget deliberations. Agencies must continue to strive toward routinely producing reliable, useful, and timely information to help guide decision makers on a day-to-day basis. Federal entities' improvement of financial management practices and systems will be essential to achieving this goal for their agencies and the federal government as a whole.

Meaningful improvement in financial and performance management will not occur without sustained commitment by executive branch leaders and managers and continued oversight by Congress. The single most important element of successful financial and performance management improvement efforts is the demonstrated commitment and personal

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<sup>64</sup>For additional information on the federal government's financial management challenges and long-term fiscal path, see Related Products in app. II.

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involvement of top leaders. Demonstrating leadership support for accountability and improvement by promoting capacity building and use of evidence is also essential to facilitating program evaluation use in agency program management and policy making. Similarly, Congress can play a decisive role in fostering results-oriented cultures in the federal government by using information on agency goals and asking for and using financial and performance information as it carries out its various legislative responsibilities.

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Chairman Enzi, Ranking Member Sanders, and Members of the Committee, this concludes my prepared statement. I would be pleased to respond to questions.

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## GAO Contacts

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# Appendix I: Chief Financial Officers (CFO) Act Agencies: Fiscal Year 2015 Audit Results and Principal Auditors

CFO Act agencies	Opinion expressed by agency auditor	Agency auditor-reported material weaknesses or noncompliances <sup>a</sup>	Principal auditor
Agency for International Development	Unmodified	√	Office of Inspector General (OIG)
Department of Agriculture	Disclaimer	√	OIG
Department of Commerce	Unmodified		KPMG LLP
Department of Defense	Disclaimer	√	OIG
Department of Education	Unmodified	√	CliftonLarsonAllen LLP
Department of Energy	Unmodified	√	KPMG LLP
Environmental Protection Agency	Unmodified	√	OIG
General Services Administration	Unmodified		KPMG LLP
Department of Health and Human Services	b	√	Ernst & Young LLP
Department of Homeland Security	Unmodified	√	KPMG LLP
Department of Housing and Urban Development	Disclaimer	√	OIG
Department of the Interior	Unmodified	√	KPMG LLP
Department of Justice	Unmodified		KPMG LLP
Department of Labor	Unmodified	√	KPMG LLP
National Aeronautics and Space Administration	Unmodified	√	CliftonLarsonAllen LLP
National Science Foundation	Unmodified	√	CliftonLarsonAllen LLP
Nuclear Regulatory Commission	Unmodified		CliftonLarsonAllen LLP
Office of Personnel Management	Unmodified	√	KPMG LLP
Small Business Administration	Unmodified	√	KPMG LLP
Social Security Administration	Unmodified		Grant Thornton LLP
Department of State	Unmodified	√	Kearney & Company
Department of Transportation	Unmodified	√	KPMG LLP
Department of the Treasury	Unmodified	√	KPMG LLP
Department of Veterans Affairs	Unmodified	√	CliftonLarsonAllen LLP

Source: GAO. | GAO-16-541T

<sup>a</sup>These include reported noncompliance with laws and regulations, substantial noncompliance with one or more of the Federal Financial Management Improvement Act requirements, or both.

<sup>b</sup>The auditors expressed an unmodified opinion on the Department of Health and Human Services' fiscal year 2015 accrual-based financial statements, but were unable to express opinions on the department's 2015 Statement of Social Insurance and 2015 Statement of Changes in Social Insurance Amounts.

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# Appendix II: Related Products

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*Financial Audit: U.S. Government's Fiscal Years 2015 and 2014 Consolidated Financial Statements*

<http://www.gao.gov/products/GAO-16-357R>

GAO-16-357R: Published Feb. 25, 2016. Publicly Released: Feb. 25, 2016.

*Management Report: Improvements Needed in Controls over the Processes Used to Prepare the U.S. Consolidated Financial Statements*

<http://www.gao.gov/products/GAO-15-630>

GAO-15-630: Published Jul. 30, 2015. Publicly Released: Jul. 30, 2015.

*Debt Limit: Market Response to Recent Impasses Underscores Need to Consider Alternative Approaches*

<http://www.gao.gov/products/GAO-15-476>

GAO-15-476: Published: Jul. 9, 2015. Publicly Released: July. 9, 2015.

*Capital Financing: Alternative Approaches to Budgeting for Federal Real Property*

<http://www.gao.gov/products/GAO-14-239>

GAO-14-239: Published: Mar. 12, 2014. Publicly Released: Mar. 12, 2014.

*Understanding the Primary Components of the Annual Financial Report of the United States Government*

<http://www.gao.gov/products/GAO-09-946SP>

GAO-09-946SP: Published: Sept. 25, 2009. Publicly Released: Sept. 25, 2009.

*A Glossary of Terms Used in the Federal Budget Process*

<http://www.gao.gov/products/GAO-05-734SP>

GAO-05-734SP: Published: Sept. 1, 2005. Publicly Released: Sept. 1, 2005.

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*Fiscal Outlook & the Debt*

[http://www.gao.gov/fiscal\\_outlook/overview](http://www.gao.gov/fiscal_outlook/overview)

contains tabs on

- *Understanding the Federal Debt*  
[http://www.gao.gov/fiscal\\_outlook/understanding\\_federal\\_debt/overview](http://www.gao.gov/fiscal_outlook/understanding_federal_debt/overview)
- *Measuring the Federal Deficit*  
[http://www.gao.gov/fiscal\\_outlook/measuring\\_the\\_federal\\_deficit/overview](http://www.gao.gov/fiscal_outlook/measuring_the_federal_deficit/overview)
- *The State & Local Outlook*  
[http://www.gao.gov/fiscal\\_outlook/state\\_local\\_fiscal\\_model/overview](http://www.gao.gov/fiscal_outlook/state_local_fiscal_model/overview)
- *The Federal Fiscal Outlook*  
[http://www.gao.gov/fiscal\\_outlook/federal\\_fiscal\\_outlook/overview](http://www.gao.gov/fiscal_outlook/federal_fiscal_outlook/overview)

*Duplication and Cost Savings: Annual Reports and Action Tracker*

<http://www.gao.gov/duplication/overview>

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